

Titan Machinery Inc.
Form 10-Q
December 07, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended October 31, 2015

Commission File No. 001-33866

TITAN MACHINERY INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

No. 45-0357838
(IRS Employer
Identification No.)

644 East Beaton Drive
West Fargo, ND 58078-2648
(Address of Principal Executive Offices)

Registrant's telephone number (701) 356-0130

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if smaller reporting company)

Smaller reporting company

Edgar Filing: Titan Machinery Inc. - Form 10-Q

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES NO

The number of shares outstanding of the registrant's common stock as of November 30, 2015 was: Common Stock, \$0.00001 par value, 21,574,233 shares.

Table of Contents

TITAN MACHINERY INC.
 QUARTERLY REPORT ON FORM 10-Q

Table of Contents

	Page No.
PART I. FINANCIAL INFORMATION	<u>3</u>
ITEM 1. FINANCIAL STATEMENTS	<u>3</u>
Consolidated Balance Sheets as of October 31, 2015 and January 31, 2015	<u>3</u>
Consolidated Statements of Operations for the three and nine months ended October 31, 2015 and 2014	<u>4</u>
Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended October 31, 2015 and 2014	<u>5</u>
Consolidated Statements of Stockholders' Equity for the nine months ended October 31, 2015 and 2014	<u>6</u>
Consolidated Statements of Cash Flows for the nine months ended October 31, 2015 and 2014	<u>7</u>
Notes to Consolidated Financial Statements	<u>8</u>
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	<u>20</u>
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	<u>34</u>
ITEM 4. CONTROLS AND PROCEDURES	<u>34</u>
PART II. OTHER INFORMATION	<u>35</u>
ITEM 1. LEGAL PROCEEDINGS	<u>35</u>
ITEM 1A. RISK FACTORS	<u>35</u>
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	<u>35</u>
ITEM 3. DEFAULTS UPON SENIOR SECURITIES	<u>35</u>
ITEM 4. MINE SAFETY DISCLOSURES	<u>36</u>
ITEM 5. OTHER INFORMATION	<u>36</u>
ITEM 6. EXHIBITS	<u>36</u>
Signatures	<u>37</u>
Exhibit Index	<u>38</u>

Table of Contents

PART I. — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TITAN MACHINERY INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	October 31, 2015 (Unaudited)	January 31, 2015
Assets		
Current Assets		
Cash	\$78,409	\$127,528
Receivables (net of allowance of \$4,101 and \$4,218 as of October 31, 2015 and January 31, 2015, respectively)	69,390	76,382
Inventories	813,840	879,440
Prepaid expenses and other	7,300	10,634
Income taxes receivable	2,888	166
Deferred income taxes	18,487	19,025
Assets held for sale	11,776	15,312
Total current assets	1,002,090	1,128,487
Intangibles and Other Assets		
Intangible assets, net of accumulated amortization	5,189	5,458
Other	7,610	7,122
Total intangibles and other assets	12,799	12,580
Property and Equipment, net of accumulated depreciation	178,781	208,680
Total Assets	\$1,193,670	\$1,349,747
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$23,185	\$17,659
Floorplan payable	546,586	627,249
Current maturities of long-term debt	1,419	7,749
Customer deposits	11,650	35,090
Accrued expenses	28,024	35,496
Income taxes payable	—	3,529
Liabilities held for sale	2,855	2,835
Total current liabilities	613,719	729,607
Long-Term Liabilities		
Senior convertible notes	135,096	132,350
Long-term debt, less current maturities	28,625	67,123
Deferred income taxes	39,313	38,996
Other long-term liabilities	3,083	3,312
Total long-term liabilities	206,117	241,781
Commitments and Contingencies		
Stockholders' Equity		
Common stock, par value \$.00001 per share, 45,000 shares authorized; 21,576 shares issued and outstanding at October 31, 2015; 21,406 shares issued and outstanding at January 31, 2015	—	—

Edgar Filing: Titan Machinery Inc. - Form 10-Q

Additional paid-in-capital	242,149	240,180
Retained earnings	134,576	137,418
Accumulated other comprehensive loss	(3,705	) (1,099
Total Titan Machinery Inc. stockholders' equity	373,020	376,499
Noncontrolling interest	814	1,860
Total stockholders' equity	373,834	378,359
Total Liabilities and Stockholders' Equity	\$1,193,670	\$1,349,747
See Notes to Consolidated Financial Statements		

3

Table of Contents

TITAN MACHINERY INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(in thousands, except per share data)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2015	2014	2015	2014
Revenue				
Equipment	\$215,692	\$343,482	\$681,691	\$1,008,614
Parts	73,838	80,692	197,439	219,597
Service	34,116	42,410	99,860	117,941
Rental and other	21,329	26,557	53,371	63,442
Total Revenue	344,975	493,141	1,032,361	1,409,594
Cost of Revenue				
Equipment	198,095	317,702	628,280	926,863
Parts	51,673	56,402	138,626	154,146
Service	12,449	15,037	36,136	42,969
Rental and other	15,617	19,309	39,674	45,333
Total Cost of Revenue	277,834	408,450	842,716	1,169,311
Gross Profit	67,141	84,691	189,645	240,283
Operating Expenses	53,484	69,459	165,979	208,406
Impairment and Realignment Costs	22	—	1,519	2,952
Income from Operations	13,635	15,232	22,147	28,925
Other Income (Expense)				
Interest income and other income (expense)	722	(489)	(565)	(4,095)
Floorplan interest expense	(4,602)	(5,444)	(13,945)	(15,345)
Other interest expense	(4,041)	(3,586)	(11,228)	(10,586)
Income (Loss) Before Income Taxes	5,714	5,713	(3,591)	(1,101)
Provision for (Benefit from) Income Taxes	2,231	3,400	(354)	4,254
Net Income (Loss) Including Noncontrolling Interest	\$3,483	\$2,313	\$(3,237)	\$(5,355)
Less: Net Income (Loss) Attributable to Noncontrolling Interest	27	(157)	(395)	(662)
Net Income (Loss) Attributable to Titan Machinery Inc.	\$3,456	\$2,470	\$(2,842)	\$(4,693)
Net (Income) Loss Allocated to Participating Securities - Note 1	(72)	(49)	53	80
Net Income (Loss) Attributable to Titan Machinery Inc. Common Stockholders	\$3,384	\$2,421	\$(2,789)	\$(4,613)
Earnings (Loss) per Share - Note 1				
Earnings (Loss) per Share - Basic	\$0.16	\$0.12	\$(0.13)	\$(0.22)
Earnings (Loss) per Share - Diluted	\$0.16	\$0.11	\$(0.13)	\$(0.22)
Weighted Average Common Shares - Basic	21,129	20,994	21,093	20,977
Weighted Average Common Shares - Diluted	21,218	21,102	21,093	20,977

See Notes to Consolidated Financial Statements

Table of Contents

TITAN MACHINERY INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(in thousands)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2015	2014	2015	2014
Net Income (Loss) Including Noncontrolling Interest	\$3,483	\$2,313	\$(3,237)	\$(5,355)
Other Comprehensive Income (Loss)				
Foreign currency translation adjustments	(100)	(3,351)	(3,829)	(3,505)
Unrealized gain on net investment hedge derivative instruments, net of tax expense of \$5 and \$945 for the three months ended October 31, 2015 and 2014, respectively, and \$133 and \$975 for the nine months ended October 31, 2015 and 2014, respectively	7	1,418	200	1,464
Unrealized loss on interest rate swap cash flow hedge derivative instrument, net of tax benefit of \$321 and \$442 for the three months ended October 31, 2015 and 2014, respectively, and \$290 and \$474 for the nine months ended October 31, 2015 and 2014, respectively	(482)	(664)	(436)	(710)
Unrealized gain on foreign currency contract cash flow hedge derivative instruments, net of tax expense of \$29 for the nine months ended October 31, 2014	—	—	—	44
Reclassification of loss on interest rate swap cash flow hedge derivative instruments included in net income (loss), net of tax benefit of \$213 and \$60 for the three months ended October 31, 2015 and October 31, 2014, respectively, and \$532 and \$60 for the nine months ended October 31, 2015 and October 31, 2014, respectively	320	90	798	90
Reclassification of loss on foreign currency contract cash flow hedge derivative instruments included in net income (loss), net of tax benefit of \$2 and \$15 for the three months ended October 31, 2015 and October 31, 2014, respectively, and \$7 and \$29 for the nine months ended October 31, 2015 and 2014, respectively	2	23	10	43
Total Other Comprehensive Income (Loss)	(253)	(2,484)	(3,257)	(2,574)
Comprehensive Income (Loss)	3,230	(171)	(6,494)	(7,929)
Comprehensive Income (Loss) Attributable to Noncontrolling Interest	(13)	(484)	(1,046)	(1,002)
Comprehensive Income (Loss) Attributable To Titan Machinery Inc.	\$3,243	\$313	\$(5,448)	\$(6,927)

See Notes to Consolidated Financial Statements

Table of Contents

TITAN MACHINERY INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

(in thousands)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)					Total Titan Machinery Inc. Stockholders' Equity	Noncontrolling Interest	Total Stockholders' Equity
	Shares Outstanding	Additional Paid-in Capital		Foreign Currency Translation Adjustments	Unrealized Gains (Losses) on Investments Hedges	Unrealized (Losses) on Interest Rate Swap Cash Flow Hedges	Unrealized Gains (Losses) on Foreign Currency Contract Cash Flow Hedges	Total			
Balance, January 31, 2014	21,261	\$—\$238,857	\$169,575	\$1,541	\$(339)	\$(737)	\$(126)	\$339	\$408,771	\$2,571	\$411,342
Common stock issued on grant of restricted stock (net of forfeitures), exercise of stock options, and tax benefits of equity awards	150	—(50)	—	—	—	—	—	—	(50)	—	(50)
Stock-based compensation expense	—	—1,752	—	—	—	—	—	—	1,752	—	1,752
Other Comprehensive loss:	—	—(502)	—	—	—	—	—	—	(502)	420	(82)
Net loss	—	—	(4,693)	—	—	—	—	—	(4,693)	(662)	(5,355)
Other comprehensive income (loss)	—	—	—	(3,165)	1,464	(620)	87	(2,234)	(2,234)	(340)	(2,574)
Total comprehensive loss	—	—	—	—	—	—	—	—	(6,927)	(1,002)	(7,929)
Balance, October 31, 2014	21,411	\$—\$240,057	\$164,882	\$(1,624)	\$1,125	\$(1,357)	\$(39)	\$(1,895)	\$403,044	\$1,989	\$405,033
Balance, January 31, 2015	21,406	\$—\$240,180	\$137,418	\$(1,632)	\$2,510	\$(1,940)	\$(37)	\$(1,099)	\$376,499	\$1,860	\$378,359
	170	—170	—	—	—	—	—	—	170	—	170

Edgar Filing: Titan Machinery Inc. - Form 10-Q

Common stock issued on grant of restricted stock (net of forfeitures), exercise of stock options, and tax benefits of equity awards												
Stock-based compensation expense	—	—1,799	—	—	—	—	—	—	—	1,799	—	1,799
Comprehensive loss:												
Net loss	—	—	(2,842)	—	—	—	—	—	(2,842)	(395)	(3,237)	
Other comprehensive income (loss)	—	—	—	(3,178)	200	362	10	(2,606)	(2,606)	(651)	(3,257)	
Total comprehensive loss	—	—	—	—	—	—	—	—	(5,448)	(1,046)	(6,494)	
Balance, October 31, 2015	21,576	\$—242,149	\$134,576	\$(4,810)	\$2,710	\$(1,578)	\$(27)	\$(3,705)	\$373,020	\$814	\$373,833	

See Notes to Consolidated Financial Statements

Table of Contents

TITAN MACHINERY INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in thousands)

	Nine Months Ended October	
	31,	
	2015	2014
Operating Activities		
Net loss including noncontrolling interest	\$(3,237	) \$(5,355
Adjustments to reconcile net loss including noncontrolling interest to net cash provided by (used for) operating activities		
Depreciation and amortization	21,588	23,915
Impairment	193	268
Deferred income taxes	474	241
Stock-based compensation expense	1,799	1,752
Noncash interest expense	5,286	3,501
Unrealized foreign currency loss on loans to international subsidiaries	778	2,676
Other, net	(649	) (109
Changes in assets and liabilities		
Receivables, prepaid expenses and other assets	9,828	(4,981
Inventories	72,437	(2,448
Manufacturer floorplan payable	124,305	(68,489
Accounts payable, customer deposits, accrued expenses and other long-term liabilities	(27,845	) (31,734
Income taxes	(6,196	) (1,792
Net Cash Provided by (Used for) Operating Activities	198,761	(82,555
Investing Activities		
Rental fleet purchases	(292	) (502
Property and equipment purchases (excluding rental fleet)	(5,713	) (12,139
Proceeds from sale of property and equipment	5,135	13,133
Purchase of equipment dealerships, net of cash purchased	—	(584
Proceeds upon settlement of net investment hedge derivative instruments	337	3,359
Payments upon settlement of net investment hedge derivative instruments	(23	) (915
Other, net	196	104
Net Cash Provided by (Used for) Investing Activities	(360	) 2,456
Financing Activities		
Net change in non-manufacturer floorplan payable	(201,320	) 83,232
Proceeds from long-term debt borrowings	59,088	49,874
Principal payments on long-term debt	(101,465	) (16,153
Payment of debt issuance costs	(3,381	) (251
Other, net	143	(132
Net Cash Provided by (Used for) Financing Activities	(246,935	) 116,570
Effect of Exchange Rate Changes on Cash	(585	) (491
Net Change in Cash	(49,119	) 35,980
Cash at Beginning of Period	127,528	74,242
Cash at End of Period	\$78,409	\$110,222
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period		
Income taxes, net of refunds	\$5,283	\$5,799
Interest	\$18,492	\$20,998
Supplemental Disclosures of Noncash Investing and Financing Activities		

Edgar Filing: Titan Machinery Inc. - Form 10-Q

Net property and equipment financed with long-term debt, accounts payable and accrued liabilities	\$747	\$4,462
Long-term debt extinguished upon sale of property and equipment	\$3,315	\$—
Net transfer of assets to (from) property and equipment from (to) inventories	\$(5,743	) \$9,815

See Notes to Consolidated Financial Statements

7

Table of Contents

TITAN MACHINERY INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1—BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The unaudited consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim reporting. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America (“GAAP”) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The quarterly operating results for Titan Machinery Inc. (the “Company”) are subject to fluctuation due to varying weather patterns, which may impact the timing and amount of equipment purchases, rentals, and after-sales parts and service purchases by the Company’s Agriculture, Construction and International customers. Therefore, operating results for the nine-month period ended October 31, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2016. The information contained in the balance sheet as of January 31, 2015 was derived from the audited financial statements for the Company for the year then ended. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Form 10-K for the fiscal year ended January 31, 2015 as filed with the SEC.

Nature of Business

The Company is engaged in the retail sale, service and rental of agricultural and construction machinery through its stores in the United States and Europe. The Company’s North American stores are located in Arizona, Colorado, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, South Dakota, Wisconsin and Wyoming, and its European stores are located in Bulgaria, Romania, Serbia and Ukraine.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates, particularly related to realization of inventory, initial valuation and impairment of intangible assets, collectability of receivables, and income taxes.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries. All material accounts, transactions and profits between the consolidated companies have been eliminated in consolidation.

Earnings (Loss) Per Share (“EPS”)

The Company uses the two-class method to calculate basic and diluted EPS. Unvested restricted stock awards are considered participating securities because they entitle holders to non-forfeitable rights to dividends during the vesting term. Under the two-class method, basic EPS were computed by dividing net income (loss) attributable to Titan Machinery Inc. after allocation of income (loss) to participating securities by the weighted-average number of shares of common stock outstanding during the year.

Diluted EPS were computed by dividing net income (loss) attributable to Titan Machinery Inc. after allocation of income (loss) to participating securities by the weighted-average shares of common stock outstanding after adjusting for potential dilution related to the conversion of all dilutive securities into common stock. All potentially dilutive securities were included in the computation of diluted EPS. There were approximately 89,000 and 104,000 stock options outstanding that were excluded from the computation of diluted EPS for the three months ended October 31, 2015 and 2014, respectively, because they were anti-dilutive. There were approximately 191,000 and 219,000 stock options outstanding that were excluded from the computation of diluted EPS for the nine months ended October 31, 2015 and 2014, respectively, because they were anti-dilutive. None of the approximately 3,474,000 shares underlying the Company’s senior convertible notes were included in the computation of diluted EPS because the Company’s

average stock price was less than the conversion price of \$43.17.

8

Table of Contents

The following table sets forth the calculation of the denominator for basic and diluted EPS:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2015	2014	2015	2014
	(in thousands, except per share data)		(in thousands, except per share data)	
Basic Weighted-Average Common Shares Outstanding	21,129	20,994	21,093	20,977
Plus: Incremental Shares From Assumed Exercise of Stock Options	89	108	—	—
Diluted Weighted-Average Common Shares Outstanding	21,218	21,102	21,093	20,977
Earnings (Loss) per Share - Basic	\$ 0.16	\$ 0.12	\$ (0.13)	\$ (0.22)
Earnings (Loss) per Share - Diluted	\$ 0.16	\$ 0.11	\$ (0.13)	\$ (0.22)

Recent Accounting Guidance

In May 2014 and August 2015, the FASB issued authoritative guidance on accounting for revenue recognition, codified in ASC 606, Revenue from Contracts with Customers. This guidance supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. This guidance is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The Company will adopt this guidance on February 1, 2018, and will employ one of the two retrospective application methods. The Company has not determined the potential effects adoption of this standard will have on the consolidated financial statements.

In August 2014, the FASB issued authoritative guidance on management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and provide related footnote disclosures, codified in ASC 205-40, Going Concern. The guidance provides a definition of the term substantial doubt, requires an evaluation every reporting period including interim periods, provides principles for considering the mitigating effect of management's plans, requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, requires an express statement and other disclosures when substantial doubt is not alleviated, and requires an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The Company will adopt this guidance for the year-ended January 31, 2017, and it will apply to each interim and annual period thereafter. Its adoption is not expected to have a material effect on the Company's consolidated financial statements.

In April 2015, the FASB amended authoritative guidance on debt issuance costs, codified in ASC 835-30, Imputation of Interest. The amended guidance changes the balance sheet presentation of debt issuance costs to be a direct deduction from the related debt liability rather than an asset. This guidance is effective for the Company on February 1, 2016, with early adoption permitted. As of October 31, 2015, the Company had debt issuance costs associated with its senior convertible notes and lines of credit that are classified as noncurrent other assets, which upon adoption will be classified as a reduction from the respective liability balances. Its adoption will not have any impact on the Company's consolidated statements of operations.

In July 2015, the FASB amended authoritative guidance on accounting for measurement of inventory, codified in ASC 330, Inventory. The amended guidance requires inventory to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This guidance is effective for the Company on February 1, 2017, with early adoption permitted. The Company has not determined the potential effects adoption of this standard will have on the consolidated financial statements.

In September 2015, the FASB amended authoritative guidance on adjustments to provisional estimates used in accounting for business combinations, codified in ASC 805, Business Combinations. The amended guidance requires

an acquirer to recognize, in the reporting period in which the adjustment amounts are determined, adjustments to provisional amounts and the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amended guidance also requires presentation of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date, either separately on the face of the income statement or disclosed in the notes. This guidance is effective for the Company on February 1, 2016, with early adoption permitted. Its adoption will not have any impact on the Company's consolidated statements of operations.

Table of Contents

In November 2015, the FASB amended authoritative guidance on the balance sheet classification of deferred taxes, codified in ASC 740, Income Taxes. The amended guidance requires that all deferred tax liabilities and assets be classified as noncurrent in a classified balance sheet. This guidance is effective for the Company on February 1, 2017, with early adoption permitted. As of October 31, 2015, the Company had deferred taxes that are classified as current assets and noncurrent liabilities, which upon adoption will be presented as a net amount and classified as noncurrent in its consolidated balance sheets. Its adoption will not have any impact on the Company's consolidated statements of operations.

NOTE 2—INVENTORIES

	October 31, 2015	January 31, 2015
	(in thousands)	
New equipment	\$420,523	\$442,984
Used equipment	289,336	318,308
Parts and attachments	90,861	107,893
Work in process	13,120	10,255
	\$813,840	\$879,440

NOTE 3—PROPERTY AND EQUIPMENT

	October 31, 2015	January 31, 2015
	(in thousands)	
Rental fleet equipment	\$137,749	\$148,198
Machinery and equipment	23,899	24,071
Vehicles	36,927	43,435
Furniture and fixtures	38,766	39,421
Land, buildings, and leasehold improvements	55,745	57,630
	293,086	312,755
Less accumulated depreciation	(114,305	) (104,075
	\$178,781	\$208,680

NOTE 4—LINES OF CREDIT / FLOORPLAN PAYABLE

Floorplan Lines of Credit

Floorplan payable balances reflect the amount owed for new equipment inventory purchased from a manufacturer and for used equipment inventory, which is primarily acquired through trade-in on equipment sales. Certain of the manufacturers from which the Company purchases new equipment inventory offer financing on these purchases, either offered directly from the manufacturer or through the manufacturers' captive finance subsidiaries. CNH Industrial America LLC's captive finance subsidiary, CNH Industrial Capital America LLC ("CNH Industrial Capital"), also provides financing of used equipment inventory. The Company also has floorplan payable balances with non-manufacturer lenders for new and used equipment inventory. Cash flows associated with manufacturer floorplan payable are reported as operating cash flows while cash flows associated with in non-manufacturer floorplan payable are reported as financing cash flows in the Company's consolidated statements of cash flows. The Company has three significant floorplan lines of credit, credit facilities related to its foreign subsidiaries, and other floorplan payable balances with non-manufacturer lenders and manufacturers other than CNH Industrial.

On October 28, 2015, the Company entered into a Second Amended and Restated Credit Agreement (the "Credit Facility") with a group of banks led by Wells Fargo Bank, National Association ("Wells Fargo"), that amended and restated the Company's \$362.5 million credit facility dated March 30, 2012. The Credit Facility provides for a secured credit facility in an amount up to \$350.0 million, consisting of a \$275.0 million floorplan facility (the "Floorplan Line") and a \$75.0 million revolving credit facility (the "Working Capital Revolver Line"), and changed the interest rates and financial covenants, amongst other things. The amounts available under the Credit Facility are subject to base calculations and reduced by outstanding standby letters of credit. The Credit Facility has a variable interest rate on

outstanding balances, has a 0.25% to 0.375% non-usage fee on the average monthly unused amount (replacing the previous non-usage fee of 0.3% to 0.4%), and requires monthly payments of accrued interest. The Company elects at the time of any advance to choose a Base Rate Loan or a LIBOR Rate Loan. The LIBOR Rate is for the duration of one month, two month, or three month LIBOR rate at the time of the

Table of Contents

loan, as chosen by the Company. The Base Rate is the greatest of (a) the Federal Funds Rate plus 0.5%, (b) the one month LIBOR Rate plus 1%, and (c) the prime rate of interest announced, from time to time, within Wells Fargo. The applicable margin rate is determined based on excess availability under the Credit Facility and ranges from 0.75% to 1.5% for Base Rate Loans and 1.75% to 2.50% for LIBOR Rate Loans, and replaces the previous interest rate of LIBOR plus an applicable margin of 1.5% to 3.125%.

The Credit Facility is secured by all our assets and requires the Company to maintain a fixed charge coverage ratio (the "FCCR") of at least 1.1 if adjusted excess availability plus eligible cash collateral is less than 15% of the total amount of the credit facility. The Credit Agreement does not obligate the Company to maintain other financial covenants, removing the previous financial covenants related to minimum consolidated pre-tax income, minimum consolidated fixed charge coverage ratio, and a maximum consolidated net leverage ratio. The Credit Facility also includes various non-financial covenants, including, under certain conditions, restricting the Company's ability to make certain cash payments, including for cash dividends and stock repurchases, restricting the Company's ability to issue equity instruments, restricting the Company's ability to complete acquisitions or divestitures, and limiting the Company's ability to incur new indebtedness. The Credit Facility matures on the earlier of October 28, 2020 or the date that is six months prior to maturity of the Company's existing senior convertible notes unless on such date certain financial covenant tests are met as described in the Credit Agreement. As a result of this amendment, the Company wrote-off \$1.0 million of capitalized debt issuance costs in October 2015.

The Floorplan Line under the Credit Facility is used to finance equipment inventory purchases. Amounts outstanding are recorded as floorplan payable, within current liabilities on the consolidated balance sheets, as the Company intends to repay amounts borrowed within one year.

The Working Capital Revolver Line under the Credit Facility is used to finance rental fleet equipment and for general working capital requirements of the Company. Amounts outstanding are recorded as long-term debt, within long-term liabilities on the consolidated balance sheets, as the Company does not have the intention or obligation to repay amounts borrowed within one year.

Effective September 1, 2015, the Company amended its credit facility with Agricredit Acceptance LLC. The amendment reduced the available lines of credit from \$200.0 million to \$172.0 million and changed the interest rate on outstanding balances from three-month LIBOR plus an applicable margin of 4.75% to 5.25% to one-month LIBOR plus an applicable margin of 4.86% to 5.36%, amongst other things.

As of October 31, 2015, the Company had discretionary floorplan lines of credit for equipment inventory purchases totaling approximately \$1.0 billion, which includes the aforementioned \$275.0 million Floorplan Line with Wells Fargo, a \$450.0 million credit facility with CNH Industrial Capital, a \$172.0 million credit facility with Agricredit Acceptance LLC and the U.S. dollar equivalent of \$116.1 million in credit facilities related to our foreign subsidiaries. Floorplan payables relating to these credit facilities totaled approximately \$531.3 million of the total floorplan payable balance of \$546.6 million outstanding as of October 31, 2015 and \$594.1 million of the total floorplan payable balance of \$627.2 million outstanding as of January 31, 2015; the remaining outstanding balances relate to equipment inventory financing from manufacturers and non-manufacturer lenders other than the aforementioned lines of credit. As of October 31, 2015, the interest-bearing U.S. floorplan payables carried various interest rates primarily ranging from 2.44% to 5.05%, and the foreign floorplan payables carried various interest rates primarily ranging from 1.87% to 12.00%. The Company was not subject to the FCCR covenant under the Wells Fargo Credit Facility as of October 31, 2015.

Working Capital Revolver Line

As of October 31, 2015, the Company had a \$75 million Working Capital Revolver Line under the Credit Facility with Wells Fargo. The Company had \$14.7 million and \$18.7 million outstanding on this Working Capital Revolver Line as of October 31, 2015 and January 31, 2015, respectively.

Table of Contents

NOTE 5—SENIOR CONVERTIBLE NOTES

The Company's 3.75% Senior Convertible Notes issued on April 24, 2012 ("Convertible Notes") consisted of the following:

	October 31, 2015	January 31, 2015
	(in thousands except conversion rate and conversion price)	
Principal value	\$ 150,000	\$ 150,000
Unamortized debt discount	(14,904	) (17,650
Carrying value of senior convertible notes	\$ 135,096	\$ 132,350
Carrying value of equity component, net of deferred taxes	\$ 15,546	\$ 15,546
Conversion rate (shares of common stock per \$1,000 principal amount of notes)	23.1626	
Conversion price (per share of common stock)	\$43.17	

The Company recognized interest expense associated with its Senior Convertible Notes as follows:

	Three Months Ended October 31, 2015		Nine Months Ended October 31, 2015	
	2014	2014	2014	2014
	(in thousands)		(in thousands)	
Cash Interest Expense				
Coupon interest expense	\$ 1,406	\$ 1,406	\$ 4,219	\$ 4,219
Noncash Interest Expense				
Amortization of debt discount	925	864	2,745	2,563
Amortization of transaction costs	138	135	412	402
	\$ 2,469	\$ 2,405	\$ 7,376	\$ 7,184

The Senior Convertible Notes mature on May 1, 2019, unless earlier purchased by the Company, redeemed or converted. As of October 31, 2015, the unamortized debt discount will be amortized over a remaining period of approximately 3.5 years. As of October 31, 2015 and January 31, 2015, the if-converted value of the Senior Convertible Notes did not exceed the principal balance. The effective interest rate of the liability component was equal to 7.0% for each of the statements of operations periods presented.

NOTE 6—DERIVATIVE INSTRUMENTS

The Company holds derivative instruments for the purpose of minimizing exposure to fluctuations in foreign currency exchange rates to which the Company is exposed in the normal course of its operations.

Net Investment Hedges

To protect the value of the Company's investments in its foreign operations against adverse changes in foreign currency exchange rates, the Company may, from time to time, hedge a portion of its net investment in one or more of its foreign subsidiaries. Gains and losses on derivative instruments that are designated and effective as a net investment hedge are included in other comprehensive income and only reclassified into earnings in the period during which the hedged net investment is sold or liquidated. Any hedge ineffectiveness is recognized in earnings immediately.

Cash Flow Hedges

On October 9, 2013, the Company entered into a forward-starting interest rate swap instrument which has a notional amount of \$100.0 million, an effective date of September 30, 2014 and a maturity date of September 30, 2018. The objective of the instrument is to, beginning on September 30, 2014, protect the Company from changes in benchmark interest rates to which the Company is exposed through certain of its variable interest rate credit facilities. The instrument provides for a fixed interest rate of 1.901% up to the maturity date.

The Company may, from time to time, hedge foreign currency exchange rate risk arising from inventory purchases denominated in Canadian dollars through the use of foreign currency forward contracts. The maximum length of time over

Table of Contents

which the Company hedges its exposure to the variability in future cash flows associated with the Canadian dollar purchasing is less than 12 months.

The interest rate swap instrument and foreign currency contracts have been designated as cash flow hedging instruments and accordingly changes in the effective portion of the fair value of the instruments are recorded in other comprehensive income and only reclassified into earnings in the period(s) in which the related hedged item affects earnings or the anticipated underlying hedged transactions are no longer probable of occurring. Any hedge ineffectiveness is recognized in earnings immediately.

Derivative Instruments Not Designated as Hedging Instruments

The Company uses foreign currency forward contracts to hedge the effects of fluctuations in exchange rates on outstanding intercompany loans. The Company does not formally designate and document such derivative instruments as hedging instruments; however, the instruments are an effective economic hedge of the underlying foreign currency exposure. Both the gain or loss on the derivative instrument and the offsetting gain or loss on the underlying intercompany loan are recognized in earnings immediately, thereby eliminating or reducing the impact of foreign currency exchange rate fluctuations on net income.

The following table sets forth the notional value of the Company's outstanding derivative instruments.

	Notional Amount as of:	
	October 31, 2015	January 31, 2015
	(in thousands)	
Net investment hedge:		
Foreign currency contracts	\$—	\$14,223
Cash flow hedges:		
Interest rate swap	100,000	100,000
Foreign currency contracts	—	—
Derivatives not designated as hedging instruments:		
Foreign currency contracts	19,090	30,030

The following table sets forth the fair value of the Company's outstanding derivative instruments.

	Fair Value as of:		Balance Sheet Location
	October 31, 2015	January 31, 2015	
	(in thousands)		
Liability Derivatives:			
Derivatives designated as hedging instruments:			
Net investment hedges:			
Foreign currency contracts	\$—	\$19	Accrued expenses
Cash flow hedges:			
Interest rate swap	2,662	3,233	Accrued expenses
Derivatives not designated as hedging instruments:			
Foreign currency contracts	76	17	Accrued expenses
Total Liability Derivatives	\$2,738	\$3,269	

Table of Contents

The following table sets forth the gains and losses (before the related income tax effects) recognized in other comprehensive income (loss) ("OCI") and income (loss) related to the Company's derivative instruments for the three and nine months ended October 31, 2015 and 2014, respectively.

	Three Months Ended October 31, 2015		2014		Nine Months Ended October 31, 2015		2014		Statements of Operations Classification
	OCI (in thousands)	Income (Loss)	OCI	Income (Loss)	OCI (in thousands)	Income (Loss)	OCI	Income (Loss)	
Derivatives Designated as Hedging Instruments:									
Net investment hedges:									
Foreign currency contracts	\$ 12	\$—	\$2,363	\$—	\$ 333	\$—	\$2,439	\$—	N/A
Cash flow hedges:									
Interest rate swap (a)	(803)	(446)	(1,106)	(150)	(727)	(1,330)	(1,184)	(150)	Floorplan interest expense / Interest income and other income (expense)
Foreign currency contracts	—	(4)	—	(37)	—	(17)	73	(72)	Cost of revenue - equipment
Derivatives Not Designated as Hedging Instruments:									
Foreign currency contracts	—	(54)	—	2,436	—	751	—	2,582	Interest income and other income (expense)
Total Derivatives	\$(791)	\$(504)	\$1,257	\$2,249	\$(394)	\$(596)	\$1,328	\$2,360	

(a) Included in the Income (Loss) amounts under the Company's interest rate swap is hedge ineffectiveness gain of \$0.1 million for the three months ended October 31, 2015. There was no hedge ineffectiveness for the nine months ended October 31, 2015 or for the three and nine months ended October 31, 2014. This amount was recorded in interest income and other income (expense) in the consolidated statements of operations. The remaining amounts for the three and nine months ended October 31, 2015 are reclassification amounts from accumulated other comprehensive income and are recorded in floorplan interest expense in the consolidated statements of operations. No components of the Company's net investment or cash flow hedging instruments were excluded from the assessment of hedge ineffectiveness.

As of October 31, 2015, the Company had \$2.6 million in pre-tax net unrealized losses associated with its interest rate swap cash flow hedging instrument recorded in accumulated other comprehensive income. The Company expects that \$0.7 million of pre-tax unrealized losses associated with its interest rate swap will be reclassified into income over the next 12 months.

NOTE 7—FAIR VALUE OF FINANCIAL INSTRUMENTS

The liabilities which are measured at fair value on a recurring basis as of October 31, 2015 and January 31, 2015 are as follows:

	October 31, 2015				January 31, 2015			
	Level 1 (in thousands)	Level 2	Level 3	Total	Level 1 (in thousands)	Level 2	Level 3	Total
Financial Liabilities								
Interest rate swap	\$—	\$2,662	\$—	\$2,662	\$—	\$3,233	\$—	\$3,233
Foreign currency contracts	—	76	—	76	—	36	—	36
Total Financial Liabilities	\$—	\$2,738	\$—	\$2,738	\$—	\$3,269	\$—	\$3,269

The valuation for the Company's foreign currency contracts and interest rate swap derivative instruments were valued using discounted cash flow analyses, an income approach, utilizing readily observable market data as inputs.

Table of Contents

The Company also has financial instruments that are not recorded at fair value in its consolidated financial statements. The carrying amount of cash, receivables, payables, short-term debt and other current liabilities approximates fair value because of the short maturity and/or frequent repricing of those instruments, which are Level 2 fair value inputs. Based upon current borrowing rates with similar maturities, which are Level 2 fair value inputs, the carrying value of long-term debt approximates the fair value as of October 31, 2015 and January 31, 2015, respectively. The following table provides details on the Senior Convertible Notes as of October 31, 2015 and January 31, 2015. The difference between the face value and the carrying value of these notes is the result of the allocation between the debt and equity components. Fair value of the Senior Convertible Notes was estimated based on Level 2 fair value inputs.

	October 31, 2015			January 31, 2015		
	Estimated Fair Value (in thousands)	Carrying Value	Face Value	Estimated Fair Value (in thousands)	Carrying Value	Face Value
Senior convertible notes	\$115,772	\$135,096	\$150,000	\$111,273	\$132,350	\$150,000

NOTE 8—SEGMENT INFORMATION AND OPERATING RESULTS

The Company has three reportable segments: Agriculture, Construction and International. During the three months ended April 30, 2015, the Company made changes to its internal financial reporting, primarily related to the elimination of transactions within a segment. Previously, the segment results were reported at gross amounts with eliminations reported separately to reconcile to consolidated financial results. During the three months ended April 30, 2015, the Company began reporting these eliminations within the segments to which they relate. The financial information as of January 31, 2015 and for the three and nine months ended October 31, 2014 have been reclassified for comparability with the current year presentation.

Revenue between segments is immaterial. The Company retains various unallocated income/(expense) items and assets at the general corporate level, which the Company refers to as “Shared Resources” in the table below. Shared Resources assets primarily consist of cash, deferred tax assets and property and equipment.

Certain financial information for each of the Company’s business segments is set forth below.

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2015 (in thousands)	2014	2015 (in thousands)	2014
Revenue				
Agriculture	\$211,302	\$341,547	\$660,606	\$991,649
Construction	87,023	98,246	249,601	291,758
International	46,650	53,348	122,154	126,187
Total	\$344,975	\$493,141	\$1,032,361	\$1,409,594
Income (Loss) Before Income Taxes				
Agriculture	\$4,219	\$6,134	\$693	\$16,133
Construction	1,413	15	(3,089)	(6,346)
International	351	(1,407)	(3,074)	(11,688)
Segment income (loss) before income taxes	5,983	4,742	(5,470)	(1,901)
Shared Resources	(269)	) 971	1,879	800
Income (Loss) Before Income Taxes	\$5,714	\$5,713	\$(3,591)	\$(1,101)

Table of Contents

	October 31, 2015 (in thousands)	January 31, 2015
Total Assets		
Agriculture	\$607,823	\$734,894
Construction	327,466	393,573
International	128,244	152,587
Segment assets	1,063,533	1,281,054
Shared Resources	130,137	68,693
Total	\$1,193,670	\$1,349,747

NOTE 9—STORE CLOSINGS AND REALIGNMENT COSTS

To better align the Company's cost structure and re-balance staffing levels with the evolving needs of the business, in March 2015, the Company approved a realignment plan that reduced its headcount by approximately 14%, which included headcount reductions at stores in each of its operating segments and its Shared Resource Center, as well as from the closing of three Agriculture stores and one Construction store. The Company's remaining stores in each of the respective areas assumed the distribution rights for the CNH Industrial brand previously held by the closed stores. The Company estimates the total cost of these activities to be approximately \$2.0 million, comprised of an accrual for the net present value of remaining lease obligations, employee severance costs, impairment of certain fixed assets and costs associated with relocation of assets from the closed stores. The Company recognized approximately \$0.1 million in realignment costs primarily in its International segment in its fourth quarter ended January 31, 2015, and recognized \$1.5 million in the nine months ended October 31, 2015.

To better align its Construction business in certain markets, in April 2014, the Company reduced its Construction-related headcount by approximately 12% primarily through the closing of seven underperforming Construction stores, staff reductions at other dealerships and reductions in support staff at its Shared Resource Center. The Company also closed one Agriculture store. The Company's remaining stores in each of the respective areas assumed the majority of the distribution rights for the CNH Industrial brand previously held by the closed stores. The majority of the assets of the closed stores were redeployed to other store locations. Certain inventory items which are not sold by any of our remaining stores were sold at auction. The inventory markdown attributable to such items are included in the exit cost summary below. The Company incurred \$3.4 million in exit costs in the nine months ended October 31, 2014. No additional amounts are expected to be incurred related to the closing of these stores, exclusive of any changes in lease termination accrual assumptions.

Table of Contents

The following summarizes the exit costs associated with the aforementioned store closings and realignment activities:

	Three Months Ended		Nine Months Ended		Income Statement Classification
	October 31, 2015 (in thousands)	2014	October 31, 2015 (in thousands)	2014	
Construction Segment					
Lease termination costs	\$(38)	\$—	\$223	\$1,511	Impairment and Realignment Costs
Employee severance costs	(15)	—	225	451	Impairment and Realignment Costs
Impairment of fixed assets, net of gains on asset disposition	—	—	10	(60)	Impairment and Realignment Costs
Asset relocation and other closing costs	(34)	—	34	362	Impairment and Realignment Costs
	\$(87)	\$—	\$492	\$2,264	
Agriculture Segment					
Lease termination costs	\$46	\$—	\$137	\$148	Impairment and Realignment Costs
Employee severance costs	29	—	362	71	Impairment and Realignment Costs
Impairment of fixed assets, net of gains on asset disposition	10	—	106	85	Impairment and Realignment Costs
Asset relocation and other closing costs	(5)	—	88	84	Impairment and Realignment Costs
Inventory cost adjustments	—	—	—	471	Equipment Cost of Sales
	\$80	\$—	\$693	\$859	
Shared Resource Center					
Lease termination costs	\$(12)	\$—	\$37	\$—	Impairment and Realignment Costs
Employee severance costs	—	—	187	300	Impairment and Realignment Costs
Impairment of fixed assets, net of gains on asset disposition	41	—	110	—	Impairment and Realignment Costs
	\$29	\$—	\$334	\$300	
Total					
Lease termination costs	\$(4)	\$—	\$397	\$1,659	Impairment and Realignment Costs
Employee severance costs	14	—	774	822	Impairment and Realignment Costs
Impairment of fixed assets, net of gains on asset disposition	51	—	226	25	Impairment and Realignment Costs
Asset relocation and other closing costs	(39)	—	122	446	Impairment and Realignment Costs
Inventory cost adjustments	—	—	—	471	Equipment Cost of Sales
	\$22	\$—	\$1,519	\$3,423	—

A reconciliation of the beginning and ending exit cost liability balance, which is included in accrued expenses in the consolidated balance sheets, follows:

Amount
(in thousands)

Edgar Filing: Titan Machinery Inc. - Form 10-Q

Balance, January 31, 2015	\$1,706	
Exit costs incurred and charged to expense		
Lease termination costs	397	
Employee severance costs	774	
Exit costs paid		
Lease termination costs	(555)
Employee severance costs	(774)
Balance, October 31, 2015	\$1,548	

17

Table of Contents

NOTE 10—HELD FOR SALE

The assets and liabilities which are held for sale are presented in the following table:

	October 31, 2015 (in thousands)	January 31, 2015
Assets Held for Sale		
Receivables	\$54	\$147
Inventories		
New equipment	3,523	6,269
Used equipment	2,541	3,973
Parts and attachments	450	920
Work in process	37	65
Total inventories	6,551	11,227
Property and equipment		
Machinery and equipment	39	114
Vehicles	75	155
Furniture and fixtures	21	57
Land, buildings, and leasehold improvements	5,036	3,612
Total property and equipment	5,171	3,938
	\$11,776	\$15,312
Liabilities Held for Sale		
Accounts payable	\$58	\$151
Floorplan payable	2,796	1,771
Customer deposits	1	913
	\$2,855	\$2,835

NOTE 11—INCOME TAXES

The Company incurs a provision for income taxes in jurisdictions in which it has taxable income. Generally the Company receives a benefit for income taxes in jurisdictions in which it has taxable losses unless it has recorded a valuation allowance for that jurisdiction. These losses are available to reduce future taxable income in these jurisdictions if earned within the allowable net operating loss carryforward period. The foreign jurisdictions in which the Company operates have net operating loss carryforward periods ranging from five to seven years, with certain jurisdictions having indefinite carryforward periods.

The components of income (loss) before income taxes are as follows:

	Three Months Ended October 31, 2015		Nine Months Ended October 31, 2015	
	2014	2014	2014	2014
	(in thousands)		(in thousands)	
U.S.	\$5,363	\$7,097	\$(521)	\$10,696
Foreign	351	(1,384)	(3,070)	(11,797)
Total	\$5,714	\$5,713	\$(3,591)	\$(1,101)

Table of Contents

A reconciliation of the statutory federal income tax rate to the Company's effective income tax rate is as follows:

	Three Months Ended October		Nine Months Ended October	
	31, 2015	2014	31, 2015	2014
U.S. statutory rate	35.0	% 35.0	% (35.0	)% (35.0
Foreign statutory rates	(0.2	)% 9.9	% 22.4	% 233.5
State taxes on income net of federal tax benefit	4.2	% 4.9	% (4.2	)% (4.9
Change in valuation allowance	(11.1	)% 8.5	% 27.8	% 458.5
Tax effect of Ukrainian hryvnia devaluation ^(a)	6.4	% (6.5	)% (13.3	)% (296.4
All other, net	4.7	% 7.7	% (7.6	)% 30.7
	39.0	% 59.5	% (9.9	)% 386.4

^(a) Represents the tax impact of differences in foreign currency losses recognized as the result of Ukrainian hryvnia devaluation between Ukrainian taxable income (loss) and financial reporting income (loss).

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our interim unaudited consolidated financial statements and related notes included in Item 1 of Part I of this Quarterly Report, and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended January 31, 2015.

Realignment Costs

To better align our cost structure and re-balance staffing levels with the evolving needs of the business, in March 2015, we approved a realignment plan that reduced our headcount by approximately 14%, which included headcount reductions at stores in each of our operating segments and our Shared Resource Center, as well as from the closing of three Agriculture stores and one Construction store. Our remaining stores in each of the respective areas assumed the distribution rights for the CNH Industrial brand previously held by the closed stores. The Company estimates the total cost of these realignment activities to be approximately \$2.0 million, comprised of an accrual for the net present value of remaining lease obligations, employee severance costs, impairment of certain fixed assets and costs associated with relocation of assets from the closed stores. We recognized \$1.5 million in realignment costs during the nine months ended October 31, 2015.

To better align our Construction business in certain markets, in April 2014, we reduced our Construction-related headcount by approximately 12% primarily through the closing of seven underperforming Construction stores, staff reductions at other dealerships and reductions in support staff at our Shared Resource Center. We also closed one Agriculture store. Our remaining stores in each of the respective areas assumed the majority of the distribution rights for the CNH Industrial brand previously held by the stores which have closed. We recognized \$3.4 million in exit costs during the nine months ended October 31, 2014.

See also the Non-GAAP Financial Measures section below for the impact of these costs on non-GAAP Diluted EPS.

Foreign Currency Remeasurement Losses

In February of 2014, the National Bank of Ukraine terminated the currency peg of the Ukrainian hryvnia ("UAH") to the USD; subsequent to the decoupling and as a result of the economic and political conditions present in the country, the UAH experienced significant devaluation from the date the currency peg was terminated through July 2015, and has continued to experience more modest volatility through October 2015. We recognized foreign currency remeasurement losses resulting from a devaluation of the UAH totaling \$0.2 million and \$0.5 million for the three months ended October 31, 2015 and October 31, 2014, respectively, and \$2.3 million and \$4.9 million for the nine months ended October 31, 2015 and October 31, 2014, respectively. These losses are included in interest income and other income (expense) in our consolidated statements of operations. See also the Non-GAAP Financial Measures section below for impact of these costs on non-GAAP Diluted EPS.

Segment Reporting

During the three months ended April 30, 2015, the Company made changes to its internal financial reporting, primarily related to the elimination of transactions within a segment. Previously, the segment results were reported at gross amounts with eliminations reported separately to reconcile to consolidated financial results. During the three months ended April 30, 2015, the Company began reporting these eliminations within the segments to which they relate. The financial information for the three and nine months ended October 31, 2014 have been reclassified for comparability with the current year presentation.

Critical Accounting Policies and Estimates

There have been no material changes in our Critical Accounting Policies and Estimates, as disclosed in our Annual Report on Form 10-K for the year ended January 31, 2015.

Overview

We own and operate a network of full service agricultural and construction equipment stores in the United States and Europe. Based upon information provided to us by CNH Industrial N.V. or its U.S. subsidiary CNH Industrial

America, LLC, we are the largest retail dealer of Case IH Agriculture equipment in the world, the largest retail dealer of Case Construction equipment in North America and a major retail dealer of New Holland Agriculture and New Holland Construction equipment in the U.S. We operate our business through three reportable segments, Agriculture, Construction and International. Within each

20

Table of Contents

segment, we have four principal sources of revenue: new and used equipment sales, parts sales, service, and equipment rental and other activities.

The agriculture industry has been experiencing challenging conditions such as decreases in agricultural commodity prices and projected net farm income, which, among other things, have a negative effect on customer sentiment and our customers' ability to secure financing for their equipment purchases. Changes in actual or anticipated net farm income generally have a direct correlation with agricultural equipment purchases by farmers. In November 2015, the U.S. Department of Agriculture ("USDA") published its projections of a 38.2% decrease in net farm income from calendar year 2014 to 2015. The commodity price of corn and soybeans, which are the predominant crops in our Agriculture store footprint, decreased significantly during the three and nine months ended October 31, 2014, and have remained relatively stable at the lower prices during the three and nine months ended October 31, 2015. These industry conditions have negatively impacted our customer demand, resulting in decreased same-store sales and equipment revenue and an oversupply of equipment inventory in the agriculture industry in fiscal 2016.

Certain of our Construction stores, particularly those in the northern and western parts of our footprint, are impacted by the oil industry. The significant decrease in oil prices, which began in the third quarter of fiscal 2015 and have remained low throughout fiscal 2016, has caused a decrease in oil production and infrastructure activity in these areas. In addition, the aforementioned agriculture industry conditions have also led to a reduction of purchases of Construction equipment by customers in the agriculture industry, negatively affecting certain of our Construction stores. These factors have reduced demand for equipment purchases, equipment rentals, and service work and parts and have caused an oversupply of equipment inventory and rental fleet in these areas.

Our net income attributable to Titan Machinery Inc. common stockholders was \$3.4 million, or \$0.16 per diluted share, for the three months ended October 31, 2015, compared to \$2.4 million, or \$0.11 per diluted share, for the three months ended October 31, 2014. Our non-GAAP diluted earnings per share was \$0.20 for the three months ended October 31, 2015, compared to non-GAAP diluted earnings per share of \$0.14 for the three months ended October 31, 2014. See the Non-GAAP Financial Measures section below for a reconciliation between the GAAP and non-GAAP measures. Significant factors impacting the quarterly comparisons were:

- Revenue decreased 30.0% for the third quarter of fiscal 2016, as compared to the third quarter last year, mainly driven by a decrease in Agriculture same-store sales, which primarily resulted from a decrease in equipment revenue;
- Total gross profit margin increased to 19.5% for the third quarter of fiscal 2016, as compared to 17.2% for the third quarter of fiscal 2015, primarily caused by a change in gross profit mix to our higher-margin parts business and increase in gross profit margin on equipment;
- Operating expenses decreased 23.0% for the third quarter of fiscal 2016, as compared to the third quarter last year, primarily due to our realignment plan implemented in the first quarter of fiscal 2016 which decreased our headcount by 14% and generated additional cost savings from the closing of four stores during the quarter.

Results of Operations

The results shown below include the operating results of any acquisitions made during these periods. The period-to-period comparisons included below are not necessarily indicative of future results. Segment information is provided later in this discussion and analysis of our results of operations.

Same-store sales for any period represent sales by stores that were part of the Company for the entire comparable periods in the current and preceding fiscal years. We do not distinguish relocated or newly-expanded stores in this same-store analysis. Closed stores are excluded from the same-store analysis. Stores that do not meet the criteria for same-store classification are described as excluded stores throughout the Results of Operations section in this Quarterly Report on Form 10-Q.

Table of Contents

Comparative financial data for each of our four sources of revenue are expressed below.

	Three Months Ended October		Nine Months Ended October		
	31, 2015	2014	31, 2015	2014	
	(dollars in thousands)		(dollars in thousands)		
Equipment					
Revenue	\$215,692	\$343,482	\$681,691	\$1,008,614	
Cost of revenue	198,095	317,702	628,280	926,863	
Gross profit	\$17,597	\$25,780	\$53,411	\$81,751	
Gross profit margin	8.2	% 7.5	% 7.8	% 8.1	%
Parts					
Revenue	\$73,838	\$80,692	\$197,439	\$219,597	
Cost of revenue	51,673	56,402	138,626	154,146	
Gross profit	\$22,165	\$24,290	\$58,813	\$65,451	
Gross profit margin	30.0	% 30.1	% 29.8	% 29.8	%
Service					
Revenue	\$34,116	\$42,410	\$99,860	\$117,941	
Cost of revenue	12,449	15,037	36,136	42,969	
Gross profit	\$21,667	\$27,373	\$63,724	\$74,972	
Gross profit margin	63.5	% 64.5	% 63.8	% 63.6	%
Rental and other					
Revenue	\$21,329	\$26,557	\$53,371	\$63,442	
Cost of revenue	15,617	19,309	39,674	45,333	
Gross profit	\$5,712	\$7,248	\$13,697	\$18,109	
Gross profit margin	26.8	% 27.3	% 25.7	% 28.5	%

The following table sets forth our statements of operations data expressed as a percentage of total revenue for the periods indicated:

	Three Months Ended October		Nine Months Ended October		
	31, 2015	2014	31, 2015	2014	
Revenue					
Equipment	62.5	% 69.6	% 66.0	% 71.5	%
Parts	21.4	% 16.4	% 19.1	% 15.6	%
Service					